

## THE LATEST ON APPRAISING GREEN PROPERTIES

NAR Conference: November 2009

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## SESSION PRESENTERS

### Session Introduction:

Al Medina, NAR

### Panel Moderator:

Dave Porter, PorterWorks, Inc., Stanwood, WA

### Panelists:

Theddi Wright Chappell CRE, Cushman & Wakefield of  
Washington Inc., Seattle, WA

Taylor Watkins, Watkins & Associates Inc., Portland, OR

Norraine Brydon, Marshall & Swift, Los Angeles, CA

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## SESSION FORMAT

- ⊙ Moderator and each panelist will share remarks (approximately 15 minutes each)
- ⊙ Q/A after all the panelists have spoken
- ⊙ Write your question on the 3 x 5 card or use the microphone

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## APPRAISAL: SHIFTING SANDS

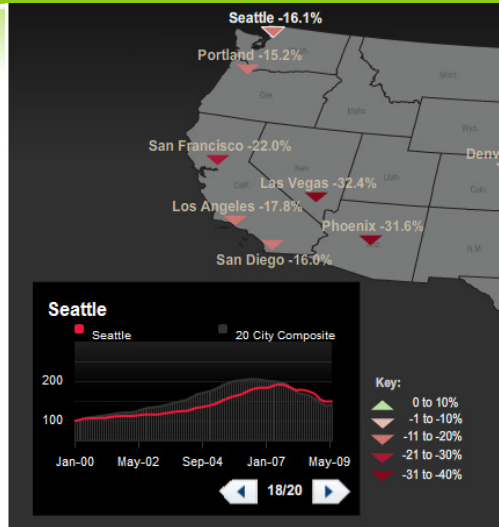
- ▶ Valuation Volatility
- ▶ HVCC
- ▶ HR 2454
- ▶ Competency: Abused and Unloved
- ▶ Underwriting & Underwriter Scrutiny



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# VALUATION VOLATILITY



Source: Standard & Poors

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# MLS: STATE OF THE UNION

## The Good News

- ▶ More and more MLS groups are going green
- ▶ Some best practices being replicated from MLS to MLS
- ▶ Some groups have web pages dedicated to greening MLS and best practices examples
- ▶ DOE has created "Guidance" document

## The Bad News

- ▶ No national centralized platform or standard.
- ▶ MLS's slow to adopt to changes.
- ▶ Confusion about various green building programs.
- ▶ Some "pooling of ignorance"; some MLS groups not covering all key items.

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# NAR GUIDANCE

The screenshot shows the NAR Green Designation website. The main content area is titled "Greening the MLS". A callout box on the right side of the page lists the following items:

- AZ-Tucson MLS Green Plans
- CA-Santa Barbara MLS Inputs
- MI-Traverse City MLS Inputs

Below the callout box, there are links to download these documents:

- AZ-Tucson MLS Green Plans (PDF 348KB)
- CA-Santa Barbara MLS Inputs (PDF 434KB)
- MI-Traverse City MLS Inputs (PDF 197KB)

At the bottom of the page, it says "COPYRIGHT PORTERWORKS, INC. 2009".

# MLS: GREEN DISCLOSURE STATEMENT

The screenshot shows the "TRAVERSE AREA ASSOCIATION OF REALTORS® MULTIPLE LISTING SERVICE GREEN DISCLOSURE STATEMENT" form, Page 1 of 4. The form includes fields for Property Address, Seller's Name, and Certification Type. It also lists several disclosure categories with corresponding options:

- Energy Source**
  - Electric on-grid
  - Electric partial-grid
  - Electric off-grid
- Space Cooling & Heating**
  - Geothermal Heat Pump
  - Heat Pump, Energy Star rated
  - Cooling-high SEER rated (13 or higher)
- Ventilation**
  - Ceiling fans
  - Ventilation system
  - Whole house fan
- Environmental**
  - Mold tested/inspected
  - Phase 1 Environmental Site Assessment
  - Private Water meets EPA standards

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## MOVING TARGETS

- ▶ **2004** Energy Star certified home less efficient than **2008** Energy Star home & both less efficient than **2011** Energy Star home.
- ▶ Because bar continues to rise each year, we'll need to track not *only* features but years built/efficient features installed.

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## HR 2454 CLEAN ENERGY AND SECURITY ACT

- ▶ States would require licensed appraisers to undergo additional professional training to equip them for their new energy-efficiency valuation responsibilities.
- ▶ Real estate appraisers will be required and consider energy efficient improvements and energy savings.



*Photo Credit: sonrisa electra via flickr*

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## COMPETENCY

- "...A lender must not assume...that the appraiser is...*
- ▶ *qualified and knowledgeable about a market area*
  - ▶ *aware of the appropriate market data sources for the area*
  - ▶ *able to obtain access to market data sources*

*Source: Fannie Mae Seller Servicer Guide*

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## STATE OF GREEN RESIDENTIAL APPRAISING

- ⊙ Quality of Construction Adjustments to Value
- ⊙ Energy Efficiency Adjustments to Value
  - ⊙ HERS score
  - ⊙ Energy Analyst/Analysis
  - ⊙ Building Program Certification
  - ⊙ Nevin et. al. *Appraisal Journal* Findings



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# RESIDENTIAL ENERGY REPORT FORM

**FannieMae**  
Energy Report  
For Fannie Mae Desktop Underwriter®

Use this Energy Report to show the Energy Savings (for underwriting purposes in accordance with the requirements of the Energy Efficient Mortgage product) to determine the Energy Savings related to the property. This Report is to be completed by the Energy Rater and submitted to the Lender. This Report must be retained by the Lender in the Loan File.

Borrower Name(s): Anybody

Property Address: 123 Home Street, Your Town, WA 12345-6789

**Energy Savings**

Monthly Energy Savings: 15

Enter Monthly Energy Savings Value into Section V "Monthly Income and Combined Housing Expense Information" in Desktop Underwriter®.

**Energy Value**

**New Homes or Energy Efficient Existing Homes**

Energy Savings Value: 2625

Enter Energy Savings Value into "Additional Data" in the Desktop Underwriter® screen by adding this value to appraised value.

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Source: Fannie Mae

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# MARSHALL & SWIFT GREEN BUILDING COSTS

- ▶ Great News for Valuers
- ▶ New and Retrofit
- ▶ Line item adjustments
- ▶ Norrine will provide us details

Source: Marshall & Swift

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**GREEN BUILDING SECTION INSTRUCTIONS**

**How to Use "Green Section" Costs**

This section is not intended to determine Green level and/or Certification opportunity of a Green structure as determined by the number of points or credits that are achieved. There are several different methods to accrue points or credits and many of which have to do with the actual construction of the structure, two structures that each have the same Green elements may have achieved that level through very different means. There is not a set standard Green elements that must be accomplished at each Green level. As a result, a Green level will not be associated with any cost guide.

The costs in this section are to be used to calculate the cost addition of new Green Building and costs and fill out the Green Building section of the appraisal report. To demonstrate how to use from Section 10 (Green Building) adjustments to apply to

**CALCULATION COST FORM**

For use in conjunction with MARSHALL & SWIFT GREEN BUILDING COSTS

1. Address: 123 Home Street, Your Town, WA 12345-6789  
Date of entry: \_\_\_\_\_  
2. Name of building: \_\_\_\_\_  
3. Level of: \_\_\_\_\_

	SECTION 1	SECTION 2	SECTION 3	SECTION 4
4. Building class and quality	10	200	100	100
5. Energy cost	10	100	100	100
6. Appliances & fixtures	10	100	100	100
7. Air conditioning	10	100	100	100
8. Water conservation	10	100	100	100
9. Other Green	10	100	100	100

**REMARKS:**

10. Remarks: \_\_\_\_\_

**TOTAL OF ALL SECTIONS**

11. Reproduction Cost: \_\_\_\_\_  
12. Reproduction Cost (with Green Building Costs): \_\_\_\_\_  
13. Reproduction Cost (with Green Building Costs) (with Green Building Costs): \_\_\_\_\_

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# THE GREEN MORTGAGE PROCESS

APPLICATION

APPROVAL

YOU ARE HERE!

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# TRUE GREEN MORTGAGE

Data

- More \$ per square foot (break the model)
- Selling home faster (less interest carry)

Likely Consequence

- Lower default due to affordability
- Less loan turn

Result

- More attractive investment
- Market driven true GREEN Mortgage

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## ENERGY STORY, CONT.

1. "Cost effective" = total cost of the improvements + maintenance < total present value of the energy saved
2. The cost of the energy efficient improvements that may be eligible for financing into the mortgage...
3. **The appraisal does not need to reflect the value of the energy added package for either new or existing construction.**
4. Stretched ratios to 33/45.

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## HR 2454 HUD MANDATE

- ⊙ Requires the Secretary of (HUD) to develop recommendations to eliminate the barriers to the use of EEMs
- ⊙ HUD to carry out an education and outreach campaign for consumers, home builders, residential lenders, and other real estate professionals on EEMs and on the benefits of energy efficiency in housing. *Source: LA Times*

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## MORTGAGES: TRENDS

1. PITIUM (Principal, Interest, Taxes, Insurances, Utilities & Maintenance)
2. Clean Energy and Security Act HR 2454
3. HUD Charge to Streamline
4. Architecture 2030's 14X Plan
5. Incentives
6. Other possibilities –Green MBS

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## CONTINUING EDUCATION

- ⊙ Appraisal Institute
- ⊙ Watson and Associates
- ⊙ GreenValuation Specialist

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## RESOURCES

<http://www.marshallswift.com>

<http://www.municode.com>

<http://www.naifa.com>

<http://www.masterappraisers.com>

<http://www.iami.org/narea.cfm>

<http://www.realtor.com>

<http://www.iami.org/nara.cfm>

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## MORE RESOURCES

<http://www.nraiappraisers.com>

[www.vancouveraccord.org](http://www.vancouveraccord.org)

<http://www.cascadiagbc.org/news/GBValueStudy.pdf>

<http://www.cascadiagbc.org/education/finance-initiative>

<http://online.wsj.com/article/SB124878477560186517.html#mod%3DtestMod%26articleTabs%3Dinteractive>

<http://www.pr-inside.com/earth-advantage-institute-addresses-disparity-r1296769.htm>

<http://www.nbnnews.com/NBN/issues/2009-05-25/Front%2BPage/index.html>

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